

Message Text

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ACTION EA-09

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TO SECSTATE WASHDC 1650

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E.O. 11652: N/A

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SUBJ: INFLATION RATE CONTINUES TO BREAK RECORDS

REF: (A) WELLINGTON 1438, (B) WELLINGTON 3855, (C) 75 WELLINGTON

3898

1. FOR THE THREE MONTHS ENDING JUNE 1976 THE CONSUMER
PRICE INDEX (CPI) ROSE 4.5 PER CENT ABOVE THE MARCH QUARTER.
IN THE FIRST 6 MONTHS OF 1976 THE INDEX ROSE 9.1 PER CENT. THE
TOTAL RISE FOR THE YEAR ENDING JUNE 1976 WAS 17.7 PER CENT, AN
ALL TIME HIGH.

2. THE MAIN GROUPS CONTRIBUTING TO THE CPI INCREASE IN THE
2ND QUARTER WERE: HOSEHOLD OPERATION (FUEL ELECTRIC POWER
SUPPLIES, SERVICES AND FURNISHINGS); HOUSING (MOSTLY HOME
OWNERSHIP); FOODS (GROCERIES, BREAD) AND PRIVATE TRANSPORTATION.
TELEPHONE RENTALS, CLOTHING AND VEHICLE PURCHASE ALSO HELPED TO
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BOOST THE TOTAL.

3. COMMENT: THE RATE OF THE CPI INCREASE HAS CONTINUED AN ALMOST STEADY QUARTERLY RISE SINCE MID-1972 WHEN IT WAS AT A LOW QUARTERLY RATE OF ONE PER CENT. THE MOST RECENT INCREASES ARE MOSTLY THE RESULT OF THE REMOVAL BY THE NATIONAL GOVERNMENT OF A NUMBER OF CONSUMER SUBSIDIES (SEE REFTELS) SINCE IT TOOK OFFICE IN EARLY DECEMBER 1975. THE INCREASES ARE NEITHER A SURPRISE NOR HAS THERE BEEN ANY EFFORT TO EXPLAIN THEM AWAY OTHER THAN THAT THIS IS A PART OF THE PROCESS OF GETTING THE ECONOMY BACK INTO BALANCE. REDUCING THE WHOPPING GOVERNMENT CONSUMER SUBSIDIES HAS SHIFTED INCREASING EXPENDITURES FOR CONSUMPTION FROM THE GOVERNMENT (DEFICIT) ACCOUNT TO THE CONSUMER PURSE. ONCE THIS MAJOR SHIFT HAS PLAYED ITSELF OUT, WITH A 12 MONTHS WAGE FREEZE AND PRICE INCREASE RESTRAINTS, THE GOVERNMENT CALCULATES THAT THE MAIN INFLATIONARY PRESSURES WILL BE REDUCED.

THE GOVERNMENT HAS STEADILY PREDICTED THAT THE RATE OF THE CPI INCREASE WILL TAPER OFF STARTING IN THE THIRD QUARTER OF 1976. (HOPEFULLY DROPPING TO AN ANNUAL RATE OF 13 PER CENT IN THE LAST QUARTER OF 1976 AND 10 PER CENT IN THE FIRST QUARTER OF 1977). THE PRINCIPAL CONSUMER PRICE JUMPS RESULTING FROM REMOVAL OF THE SUBSIDIES ARE OF A ONCE ONLY NATURE, THOUGH THERE WILL BE SOME, LESSER SECONDARY EFFECT ESPECIALLY AS SUCH COST INCREASES AS TRANSPORTATION, TELEPHONE, ELECTRIC POWER, POSTAL, ETC. WORK THEIR WAY THROUGH TO OTHER PRICES.

THREE FACTORS WHICH MAY MILITATE AGAINST A SLACKENING IN THE RATE OF INFLATION ARE: (1) AN EXPECTED INCREASE IN THE RATE OF IMPORT PRICES RISES, (2) A CONTINUING FALL IN PRODUCTIVITY AND (3) A SHRINKING OF THE VALUE OF THE NEW ZEALAND DOLLAR VIS-A-VIS THE CURRENCIES OF CERTAIN IMPORTANT SOURCES OF ITS IMPORTS (E.G. AUSTRALIA, JAPAN, US, AND THE EEC). THE POUND STERLING IS AN IMPORTANT CURRENCY INT THE "BASKET OF CURRENCIES" WHICH FORM THE BASIS OF THE NZ DOLLAR" CONTROLLED FLOAT". STERLING'S FALL HAS AFFECTED THE NZ DOLLAR'S VALUE VIS-A-VIS OTHER CURRENCIES. (INCIDENTALLY, THIS HAS ALSO HAD SOME ADVERSE EFFECT ON THE VALUE OF NZ FOREIGN EXCHANGE HOLDINGS, ABOUT ONE-THIRD OF WHICH UNCLASSIFIED

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HAVE BEEN IN STERLING). AS THE GOVERNMENT MEASURES HAVE BEGUN TO BE FELT BY THE CONSUMER, ESPECIALLY THE LOWER WAGE EARNER, SIGNS OF GROWING UNEASINESS ARE BECOMING EVIDENT. UP TO PRESENT THIS HAS BEEN MANIFESTED MOSTLY BY LABOR ACTION AGAINST THE GOVERNMENT'S WAGES POLICY. (THIS ACTION IS REPORTED SEPTTEL.)

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